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**Date:** 6/26/2018

**GAIN Report Number:**

## **South Africa - Republic of**

**Post:** Pretoria

## **Growth Potential for United States Wine Exports to South Africa**

### **Report Categories:**

Wine

Beverages

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### **Report Highlights:**

The decline in the production and stocks of wine in South Africa is expected to result in an increase in domestic prices, and in potential shortages of distilling wine and wine for brandy production, which may lead to an increased demand for imports. Imports from the United States are currently minimal due largely to a high import tariff of up to 25 percent. However, there may be potential for growth in United States premium wine exports to South Africa, especially wines with a price point of between \$20 to \$60 from restaurants, hotels, wine clubs and private premium wine consumers. The potential shortages of distilling wine and wine for brandy production also presents an opportunity for United States suppliers.

### **Executive Summary**

Post forecasts that wine grape production will decrease by 15 percent to 1.1 million MT in the 2018/19 MY. This is due to the impact of the current drought in the main grape growing region of the Western Cape, the decrease in area planted, lower yields, and smaller sized grapes.

Post forecasts that wine production will decrease by 11 percent to 800 million liters in the 2018/19 MY. This decrease is due to the decline in the quantity of grapes crushed for wine production, which was mitigated by the increase in the utilization of grapes as wine producers have been improving their efficiencies over the past four years.

Posts forecasts that wine exports will remain flat at 517 million liters in the 2018/19 MY, based on the industry strategy to prioritize export markets, despite the decrease in production and the year to date exports. South African wine imports will increase by 8 percent to 2.3 million liters in the 2018/19 MY, due to the low supply in the domestic market and the long term growth trend of imports. There may be potential for growth in United States exports of wines to South Africa because of demand from premium wine consumers, and potential shortages of distilling wine and wine for brandy production. Imports face a 25 percent customs duty, which is an obstacle United States exports must confront to compete with South Africa's key suppliers such as France, Italy, Portugal, Chile, Spain and Argentina.

Post forecasts that the domestic consumption of wine will remain flat at 406 million liters in the 2018/19 MY. This is due to the reduction in wine production, and the industry prioritizing exports in order to earn more revenue, which would be mitigated by the long term growth in domestic demand. The domestic wine consumption has increased by an average of 1 percent per annum in the past ten years, driven by the growth of the middle-class and a younger generation of wine consumers, and increased demand for semi-sweet wines usually in boxed containers.

Post forecasts that wine stock levels will fall to 56 million liters in the 2018/19 MY, due to the decrease in production and the industry strategy to maintain export markets. The 2018/19 MY stock levels are expected to be 7 percent of the total production, which is below the optimal stock levels of 9 percent that the industry always aims to maintain. Low stock levels are expected to result in an increase in domestic wine prices in the 2018/19 MY.

Exchange Rate – 1US\$ = 13.5 Rands

MT – Metric Tons

MY – Marketing Year (January to December)

Sources:

South African Liquor Brand Owners Association (SALBA) - <https://salba.co.za/>

South Africa Wine Information System (SAWIS) - <http://www.sawis.co.za/>

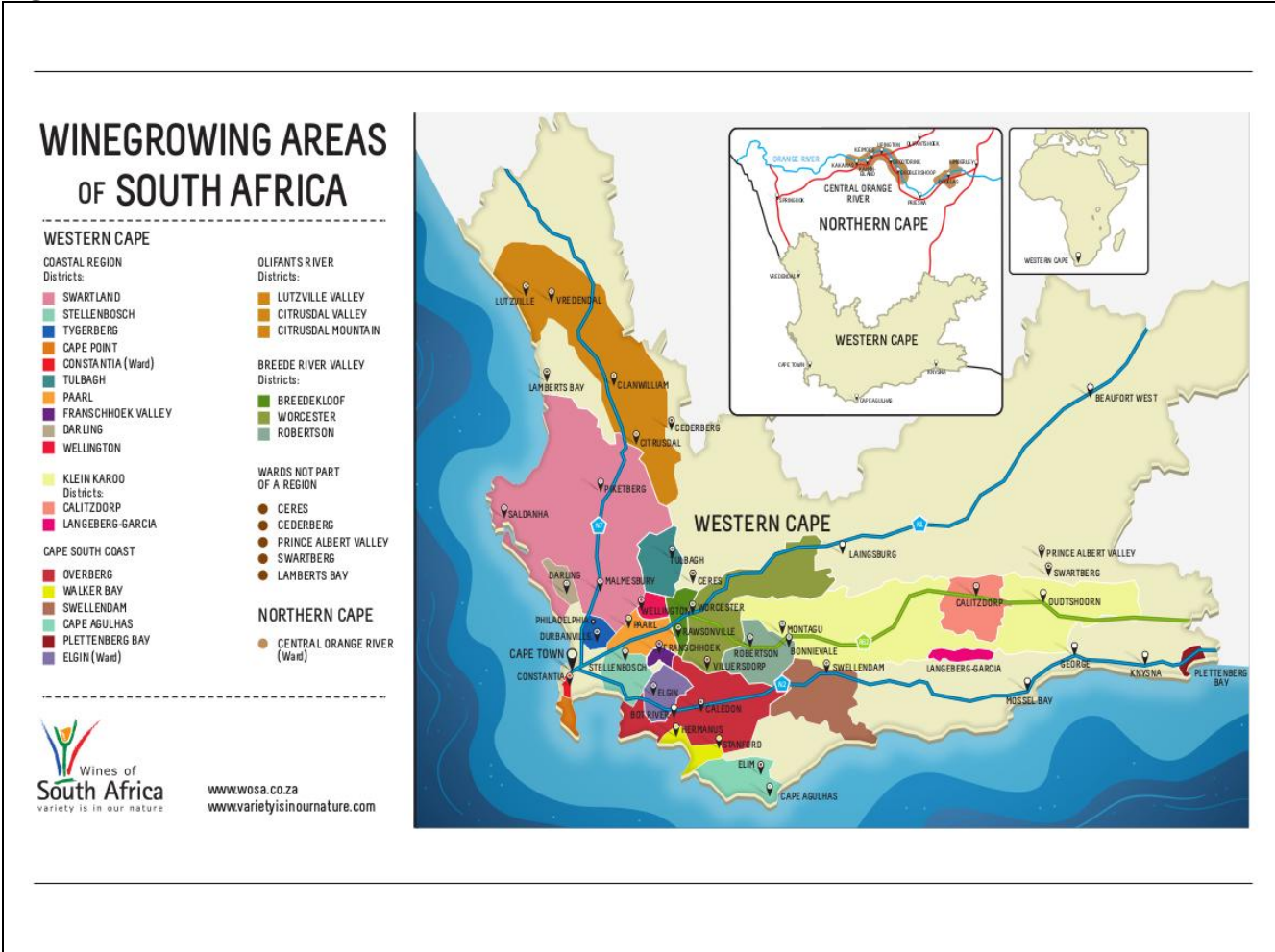
VINPRO - <http://vinpro.co.za/>

Wines of South Africa (WOSA) - <https://www.wosa.co.za/home/>

Background

The Western Cape and Northern Cape Provinces are the main wine production areas in South Africa. There is also insignificant wine production from about three wine estates located in the Kwa-Zulu Natal Province. **Figure 1** shows the wine production areas in South Africa. There are about 3,029 wine grape producers, and 546 wineries in South Africa. About 72 percent of wineries are small, with each winery crushing between 1 to 500 tons of grapes, and producing between 700 to 350,000 liters of wine. **Table 1** shows the distribution of wineries by the size of grapes they crush per annum.

Figure 1: Wine Production Areas in South Africa



Source: Wines of South Africa (WOSA)

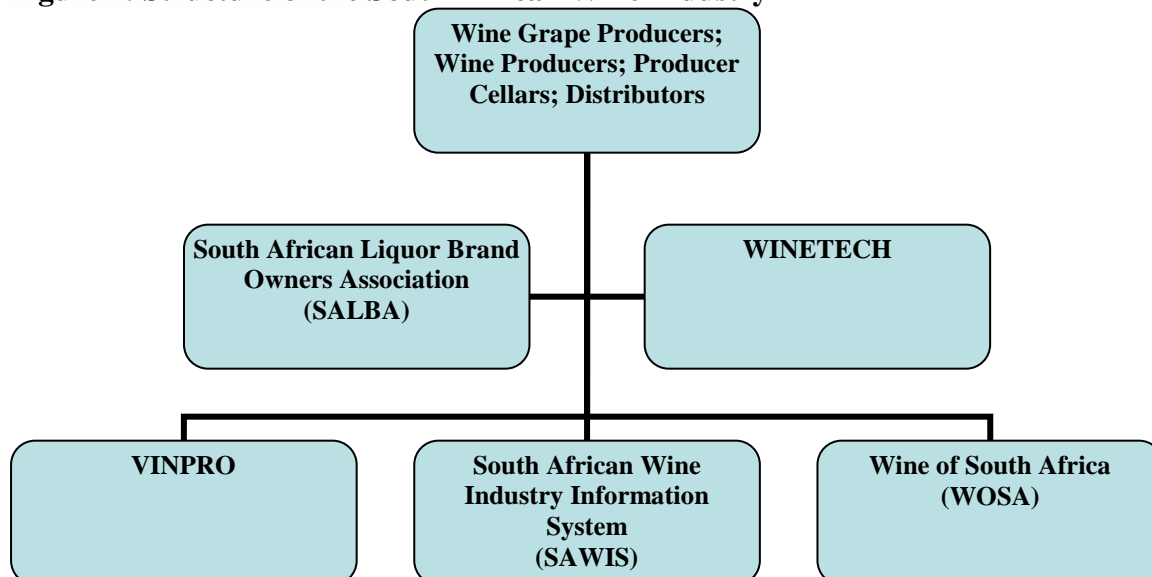
Table 1: Distribution of Wineries Based on Size

<b>Categories (Tons Wine Grapes Crushed)</b>	<b>Number of Wineries</b>	<b>Percentage</b>
1 - 100	224	41%
100 - 500	167	31%
500 - 1,000	42	8%
1,000 - 5,000	58	11%
5,000 - 10,000	16	3%
> 10,000	39	7%
<b>Total</b>	<b>546</b>	<b>100%</b>

Source: South Africa Wine Information System (SAWIS)

**Figure 2** shows the main organizations providing services and support to the South African wine industry. VINPRO represents wine producers, cellars and industry stakeholders on issues that have an impact on the profitability and sustainability of its members and the industry as a whole e.g. technical expertise and specialized services ranging from soil science to viticulture, agricultural economics and transformation and development. The Wines of South Africa (WOSA) represents producers of wine who export their products and is recognized by government as an Export Council. Winetech operates as a network of participating institutions and individuals to support the South African wine industry with research and technology transfer. The South African Liquor Brand Owners Association (SALBA) represents manufacturers and distributors of liquor products on issues of common interest e.g. lobbying government on regulatory matters. The South African Wine Industry Information and Systems (SAWIS) support the wine industry through the collection, analysis and dissemination of industry information, and the administration of the industry's Wine of Origin system.

**Figure 2: Structure of the South African Wine Industry**

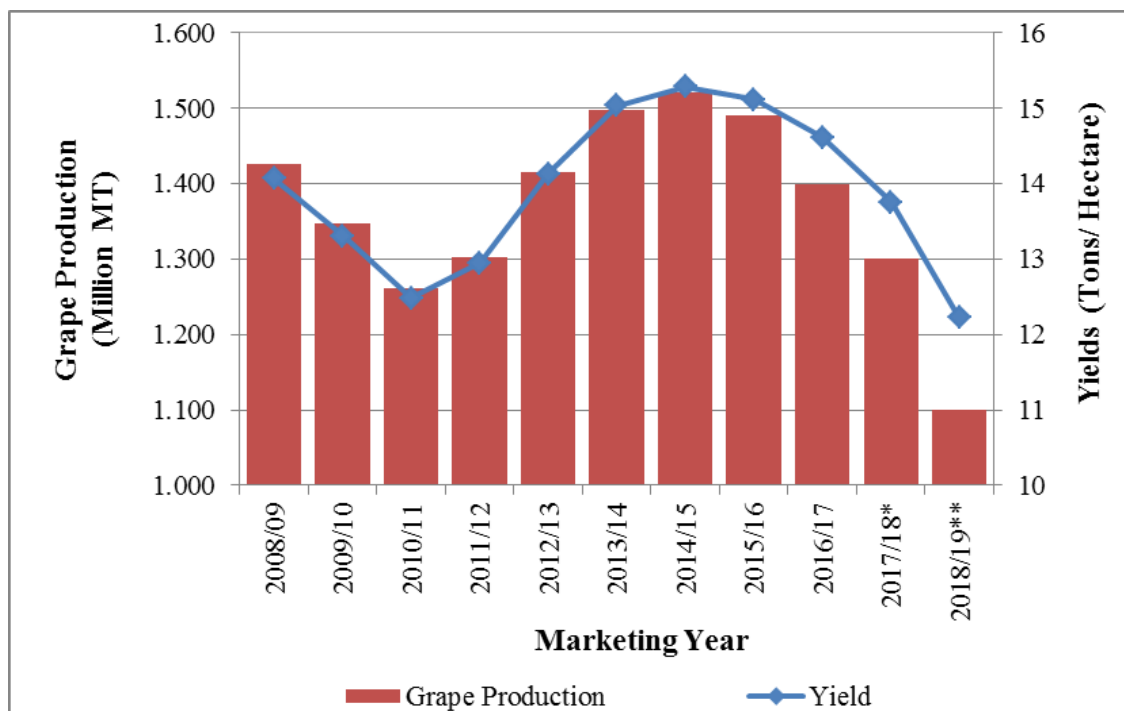


## Grape Production

Post forecasts that wine grape production will decrease by 15 percent to 1.1 million MT in the 2018/19 MY, from 1.3 million MT in the 2017/18 MY. This is due to the impact of the current drought in the main grape growing region of the Western Cape, lower yields, smaller sized grapes and the decrease in area planted. The Western Cape is facing one of its worst droughts in history, with dam levels averaging less than 30 percent. White grape varieties constitute about 55 percent of the plantings and red grape varieties constitute 45 percent of the total wine grape plantings. The most widely planted white variety is Chenin blanc accounting for 19 percent of the total plantings, followed by Colombard (12 percent), Sauvignon blanc (10 percent) and Chardonnay (7 percent). The most widely planted red variety is Cabernet Sauvignon accounting for 11 percent of the total area planted, followed by Shiraz (10 percent), Pinotage (7 percent) and Merlot (6 percent). Notably, Pinotage is a South African variety bred in 1925 by Abraham Izak Perold.

While wine grape production in South Africa has been cyclical over the past decade since 2008/09 MY, and is currently on the downward trend, the 2018/19 MY production is expected to be the lowest during this period. The area planted to wine grapes has also been in decline over the past decade, mainly due to the decline in profit margins of wine grape production and competition for land from other sectors such as citrus, blueberries and table grapes. Thus, the area planted to wine grapes is forecast to decrease by 5 percent to 90,000 hectares in the 2018/19 MY, from 94,545 hectares in the 2017/18 MY, based on the impact of the drought, and the long term industry trend where uprooting of orchards for other fruit types have been outstripping new plantings of wine grape orchards in the past decade. The record low production and the declining area planted is part of the reasons for the widespread concerns and negative outlook by the media on the South African wine industry. **Figure 3** shows the decline in grape production and yields since 2014. Based on the cyclical nature of wine production and on economic principles, industry expects that the downward production cycle and declining supply will result in increases in prices over time, and production will start to increase again. However, there are growing concerns that the declining area planted to wine grapes and the low profit margins are an indication that the wine industry should restructure and reconsider its wine production practices to become competitive or to improve the return on investment. If this does not happen, the downward trend could result in the permanent contraction of the wine industry in South Africa.

**Figure 3: Wine Grape Production and Yields**



\*Estimate, \*\*Forecast

Source: SAWIS

## Wine:

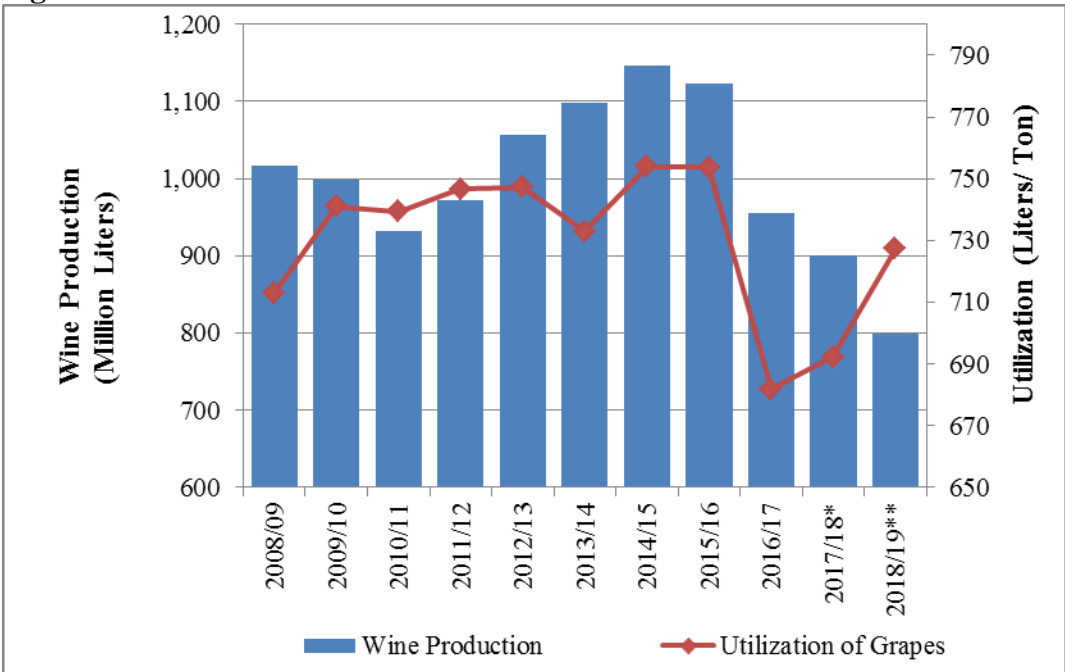
### Production

Post forecasts that wine production in South Africa will decrease by 11 percent to 800 million liters in the 2018/19 MY, from 900 million liters in the 2017/18 MY. This decrease is due to the decline in the quantity of grapes crushed for wine production, and was mitigated by the increase in the utilization of grapes as wine producers have been improving their manufacturing efficiencies over the past four years. The smaller sized wine grapes which are highly concentrated are expected to result in improved quality of the 2018/19 MY wine production.

The wine production figures reported above include natural and sparkling wine, wine for brandy and distilling wine. At least 82 percent of the wine production is accounted for by natural and sparkling wine, followed by distilling wine (10 percent), and then wine for brandy (5 percent). White wine production constitutes about 65 percent of the total wine production in South Africa, and the remaining 35 percent is red wine production.

While wine production is cyclical, it has shown a declining trend in the past decade, and the 2018/19 MY wine production is the lowest during this period as shown in **Figure 4**. This is due to the decrease in grape production, decrease in profit margins, and decrease in returns on investments. The decrease in wine production was mitigated by improved utilization of wine grapes as shown in **Figure 4**.

**Figure 4: Wine Production and Yields**



\*Estimate, \*\*Forecast

Source: SAWIS

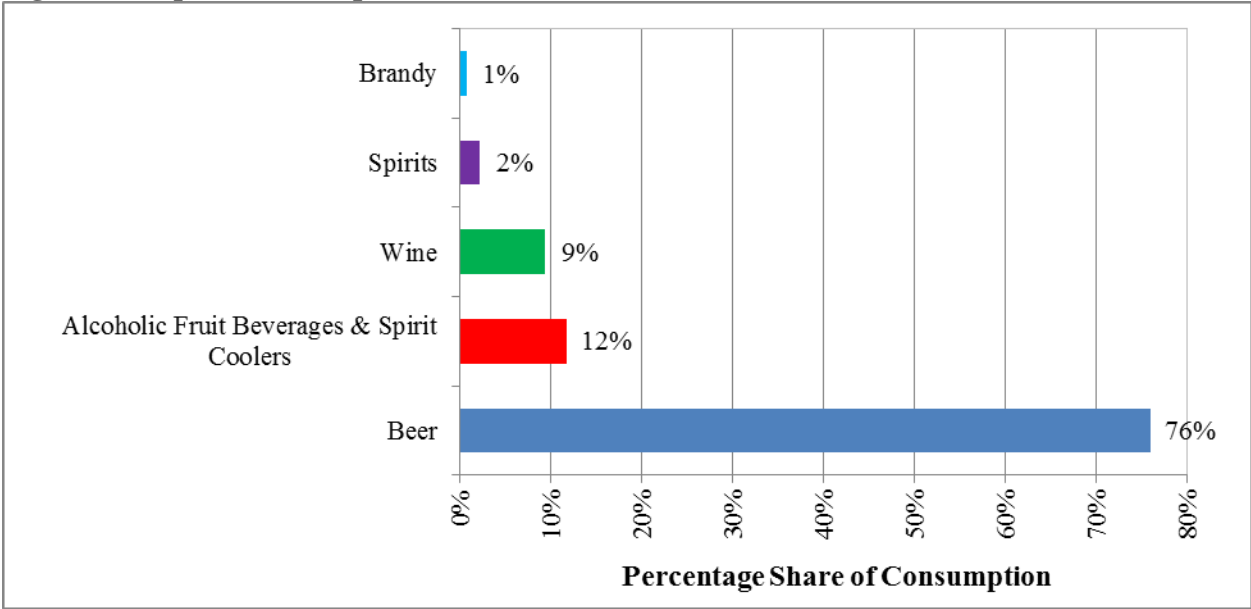
### Consumption

Post forecasts that the domestic consumption of wine will remain flat at 406 million liters in the 2018/19 MY. This is due to the reduction in wine production, and the industry prioritizing exports in order to earn more revenue, which would be mitigated by the long term growth in domestic demand. The domestic wine consumption has increased by an average of 1 percent per annum in the past ten years, driven by the growth of the middle-class and a younger generation of wine consumers, and increased demand for semi-sweet wines usually in boxed containers.

The per capita consumption of wine in South Africa at about 7 liters is still low compared to other countries such as the United States (10 liters), Namibia (20 liters) and above 25 liters in most European countries. The South African wine industry has a comprehensive plan called the Wine Industry Strategy Exercise (WISE) project, which seeks to increase the domestic consumption of wine to 450 million liters by the 2024/25 MY.

Beer is the preferred alcoholic beverage, and at an annual consumption level of 3.1 billion liters, it accounts for 76 percent of the total alcoholic beverage consumption in South Africa, followed by alcoholic fruit beverages and spirit coolers (e.g. Smirnoff Spin) at 12 percent. Wine consumption accounts for about 9 percent of total alcoholic beverage consumption, spirits account for 2 percent and brandy accounts for less than 1 percent as shown in **Figure 5**. Post expects beer to maintain this market dominance, coupled with the growth of craft beer consumption. Spirits consumption is also expected to grow driven by the increase in whisky consumption which is gaining a wider market appeal and the growth of craft gins.

**Figure 5: Liquor Consumption in South Africa in the 2017/18 MY**



Source: SAWIS

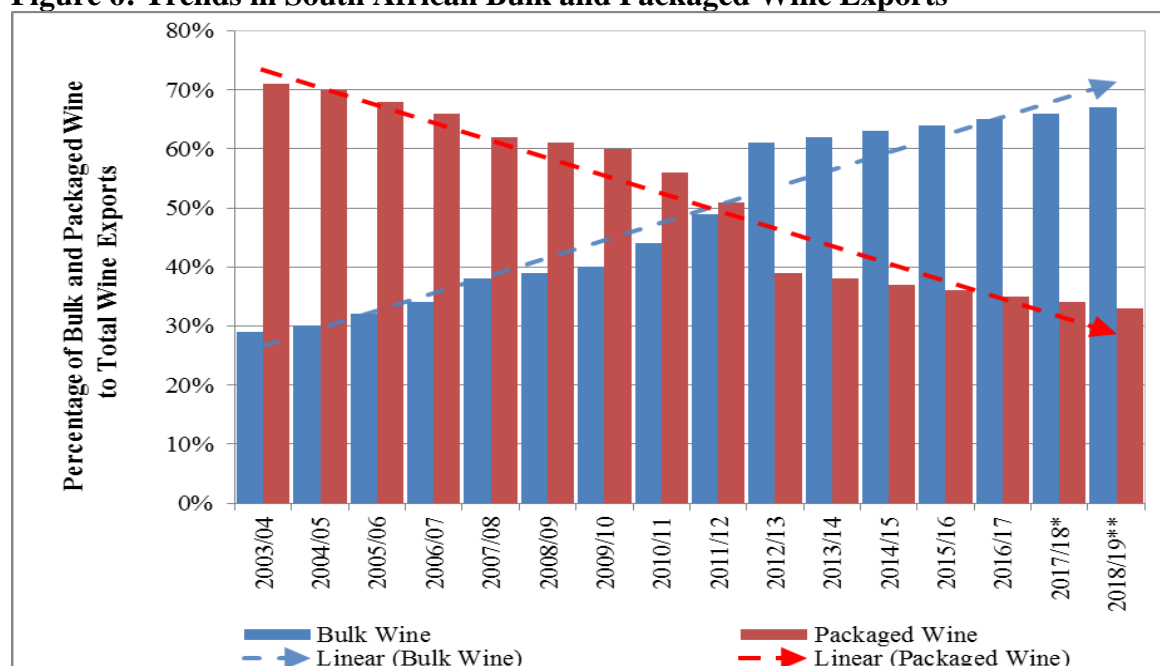
**Exports**



Posts forecasts that wine exports will remain flat at 517 million liters in the 2018/19 MY, because of the industry's strategy to prioritize and maintain export markets despite the decrease in production and the year to date exports. The United Kingdom was the biggest market for South Africa's wine exports accounting for about 20 percent of the total exports in the 2017/18 MY, followed by Germany (16 percent), Namibia (6 percent), Italy (4 percent), Canada (4 percent), United States (4 percent), Netherlands (4 percent) and China (4 percent). Notably South Africa has a free trade agreement with the European Union, and exports to the United States are duty free under the Africa Growth Opportunity Act. The impact of the United Kingdom's exit from the European Union (Brexit) is uncertain but industry expects no major shifts or disruptions. There has been remarkable growth in South African wine exports to other African countries, from 5 percent in the 2003/04 MY to 11 percent in the 2017/18 MY. This growth is expected to continue especially when the African Continental Free Trade Agreement is implemented and becomes fully operational. **Table 2** shows South African wine exports to various markets since the 2015/16 MY.

Bulk wine exports account for about 65 percent of the total exports. The growth in bulk wine exports is a global trend driven largely by cost reduction measures, demand for lower priced wines, and competition. This global trend is expected to continue as shown in **Figure 6**. The European Union, which is the biggest market for South African wine, is the leading importer for bulk wine. As a result, unless South Africa significantly diversifies its export markets from Europe, the growth of bulk wine exports from South Africa is expected to continue in the next five years. While South Africa seeks to reduce the percentage of bulk wine exports to 40% by the 2024/25 MY, this would be difficult to achieve as bulk wine demand is a global phenomenon and also requires drastic changes within the domestic industry.

**Figure 6: Trends in South African Bulk and Packaged Wine Exports**



\*Estimate, \*\*Forecast

Source: SAWIS

**Table 2: South Africa Wine Exports**

South Africa Export Statistics					
Commodity: 2204, Wine Of Fresh Grapes, Including Fortified Wines; Grape Must (Having An Alcoholic Strength By Volume Exceeding 0.5% Vol.) Nesoi					
Year Ending December					
Partner Country	Unit	Quantity			
		2015	2016	2017	2018*
World	L	483,977,129	497,472,443	516,534,062	120,977,540
United Kingdom	L	112,114,609	105,559,582	102,288,794	25,593,529
Germany	L	73,616,156	78,970,237	82,288,360	24,019,713
Canada	L	19,789,632	26,397,541	24,173,289	7,935,884
France	L	29,610,399	30,228,824	26,965,222	7,139,022
Netherlands	L	31,268,386	25,798,806	28,047,415	6,046,773
Namibia	L	25,366,418	26,824,315	28,832,598	5,585,586
Denmark	L	20,157,300	22,742,845	19,992,021	5,534,098
Italy	L	886,267	6,636,836	6,518,619	5,080,948
United States	L	11,425,060	11,066,404	25,278,733	4,046,990
Sweden	L	24,352,123	20,338,667	18,216,838	3,242,313
China	L	10,332,053	21,474,039	18,150,514	2,448,669
Belgium	L	9,894,691	9,186,426	9,003,326	1,918,256
Kenya	L	3,769,840	4,447,779	5,239,823	1,811,577
Spain	L	99,487	739,214	480,781	1,648,209
Botswana	L	10,613,976	5,252,585	9,019,612	1,500,655
Japan	L	5,012,664	4,952,837	3,977,137	1,441,046
Switzerland	L	3,243,693	3,996,419	3,622,665	1,439,298
United Arab Emirates	L	4,101,663	5,274,703	5,110,675	1,366,136
Finland	L	5,199,139	5,211,510	5,267,168	1,338,837
Russia	L	17,194,965	28,533,007	22,993,358	1,150,147
Latvia	L	1,051,532	1,217,610	1,536,248	684,260
Papua New Guinea	L	1,374,450	1,322,905	1,400,120	618,319
Zambia	L	2,946,873	2,187,142	2,901,937	616,738
Tanzania	L	3,301,223	3,722,136	16,254,332	610,982
Mauritius	L	1,902,651	1,993,438	1,709,317	524,205
Swaziland	L	1,882,475	2,222,561	1,868,395	435,550
Czech Republic	L	1,332,212	1,463,574	2,213,900	379,152
Mozambique	L	5,460,473	4,392,545	3,005,964	363,148
Uganda	L	1,087,568	1,221,322	2,405,519	360,972
Zimbabwe	L	1,518,373	1,592,999	1,246,426	298,451

\*Export figures from January to March 2018.

Source: Global Trade Atlas

## Imports

Post forecasts that wine imports will increase by 8 percent to 2.3 million liters in the 2018/19 MY, from 2.1 million liters in the 2017/18 MY, due to the low supply in the domestic market and the long term growth trend of imports. European countries such as France, Italy, Portugal and the United Kingdom are the main suppliers of wine to South Africa as their imports are duty free. Imports from the United States are currently minimal due largely to a high import tariff of up to 25 percent. However, there may be potential for growth in United States premium wine exports to South Africa, especially wines with a price point of between \$20 to \$60 from restaurants, hotels, wine clubs and private premium wine consumers. The potential shortages of distilling wine and wine for brandy production also presents an opportunity for United States suppliers. Imports face a 25 percent customs duty, which is an obstacle United States exports must confront to compete with South Africa's key suppliers such as France, Italy, Portugal, Chile, Spain and Argentina. **Table 3** shows South African wine imports to various markets since the 2015/16 MY.

The decline in the production and stocks of wine in South Africa is expected to result in an increase in domestic prices, and potential shortages of distilling wine and wine for brandy production, which may lead to an increased demand for imports. Imports from the United States are currently minimal due largely to a high import tariff of up to 25 percent. However, there may be potential for growth in United States premium wine exports to South Africa, especially wines with a price point of between \$20 to \$60 from restaurants, hotels, wine clubs and private premium wine consumers. The potential shortages of distilling wine and wine for brandy production also presents an opportunity for United States suppliers.

**Table 3: South Africa Wine Imports**

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Commodity: 2204, Wine Of Fresh Grapes, Including Fortified Wines; Grape Must (Having An Alcoholic Strength By Volume Exceeding 0.5% Vol.) Nesoi					
Year Ending December					
Partner Country	Unit	Quantity			
		2015	2016	2017	2018*
World	L	1,957,184	2,052,123	2,124,645	579,590
France	L	800,689	1,079,714	853,969	281,689
Italy	L	474,577	427,277	595,214	134,933
Portugal	L	236,453	254,540	192,684	89,001
Israel	L	12,234	7,598	12,818	18,177
Chile	L	116,424	48,367	55,811	14,898
United States	L	23,653	11,821	28,918	13,033
Spain	L	97,924	102,769	164,512	10,412
United Kingdom	L	35,392	6,910	54,408	4,806
Australia	L	35,121	38,315	39,233	3,303
China	L	90	23	9,835	1,970
Korea South	L	2	0	16	1,440

New Zealand	L	20,701	13,189	9,412	1,125
Other Countries	L	5,072	241	21,278	1,045
Argentina	L	22,792	36,276	45,035	800
Botswana	L	21,083	45	1	591
Lebanon	L	584	465	113	434
Germany	L	5,031	3,954	16,523	407
Namibia	L	524	7,007	1,686	187
Netherlands	L	14,775	8,393	4,536	127

\*Import figures from January to March 2018.

Source: Global Trade Atlas

## Stocks

Post forecasts that wine stocks will significantly decrease to 45 million liters in the 2018/19 MY, from 166 million liters in the 2017/18 MY, due to the decrease in production and the industry strategy to maintain export markets. The 2018/19 MY stock levels are expected to be 6 percent of the total production which is below the optimal stock levels of 9 percent that the industry always aims to maintain. Low stock levels are expected to result in an increase in domestic wine prices in the 2018/19 MY.

**Table 4: Production, Supply and Demand (PSD) - Wine**

Wine Market Begin Year	2016/2017		2017/2018		2018/2019	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
South Africa						
Total Grape Crush	0	1400000	0	1300000	0	1100000
Begin Stock	0	109999	0	186282	0	165873
Prod. from Wine Grapes	0	954703	0	900000	0	800000
Prod. from Table Grapes	0	0	0	0	0	0
Total Production	0	954703	0	900000	0	800000
Imports	0	2052	0	2125	0	2300
Total Supply	0	1066754	0	1088407	0	968173
Exports	0	497472	0	516534	0	517000
Domestic Consumption	0	383000	0	406000	0	406000
Ending Stocks	0	186282	0	165873	0	45173
Total Distribution	0	1066754	0	1088407	0	968173

(1000 MT) ,(1000 HL)

## Policies and Regulations:

### Customs Duties

The United States continues to trade at a disadvantage in South Africa, in comparison to countries that have a free trade agreement especially the European Union. **Table 5** shows that United States wine exports face customs duties of up to 25 percent.

**Table 5: Import duties of wine to South Africa**

Item	Description	Unit	General	EU	EFTA	SADC	MERCOSUR
2204.10	Sparkling wine	liter	25%	Free	25%	Free	25%
2204.21.30	Grape must with fermentation prevented or arrested by the addition of alcohol	liter	25%	Free	25%	Free	25%
2204.21.40	Unfortified wine	liter	25%	Free	25%	Free	25%
2204.21.50	Fortified wine	liter	25%	Free	25%	Free	25%
2204.29.30	Grape must with fermentation prevented or arrested by the addition of alcohol	liter	25%	Free	25%	Free	25%
2204.29.40	Unfortified wine	liter	25%	Free	25%	Free	25%
2204.29.50	Fortified wine	liter	25%	Free	25%	Free	25%
2204.30	Other grape must	liter	25%	Free	25%	Free	25%

Source: South African Revenue Services (SARS)

### Domestic Taxes on Wine

The South African Revenue Service also imposes additional taxes on domestic wine through the excise tax. The excise tax has increased by an average of 7 percent each year since 2012, and according to industry sources, government seems to consider alcohol taxes one of the easy and less disruptive options to increase revenue. **Table 6** below shows the excise tax schedule since 2012.

**Table 6: Excise Duty on Wine (Rands/ Liter)**

	2012	2013	2014	2015	2016	2017	2018
	(Rands )	(Rands )	(Rands )	(Rands )	(Rands )	(Rands )	(Rands )
<b>Sparkling wine</b>	7.53	8.28	8.90	9.75	10.53	11.46	12.19
<b>Natural wine</b>	2.50	2.70	2.87	3.07	3.31	3.61	3.91
<b>Fortified wine</b>	4.59	4.85	5.21	5.46	5.82	6.17	6.40

Source: SARS

## **Export and Import Procedures**

The Department of Agriculture, Forestry and Fisheries (DAFF) is responsible for the administration of regulations relating to the importation and exportation of wine in South Africa. Any liquor product intended for import needs an import certificate from the DAFF. Application for an import certificate is done online on the following website, [www.dawineonline.co.za](http://www.dawineonline.co.za). The following link provides the step by step guide for the importation of liquor products for sale in South Africa, [download](#). The following link provides the step by step guide for the exportation of liquor products from South Africa, [download](#).

## **Liquor Regulations**

Liquor regulations falls under three government departments; the Department of Agriculture, Forestry and Fisheries (DAFF), Ministry of Health and the Department of Trade and Industry (DTI). DAFF using the [Liquor Products Act No. 60 of 1989](#), regulates the import and export of liquor products by issuing certificates and ensuring compliance to the quality standards. DTI using the [National Liquor Act No 59 of 2003](#) regulates the large scale manufacture and the distribution of liquor and requires all large scale manufacturers and distributors to be registered with the National Liquor Authority and also develops national liquor laws e.g. minimum drinking age. The Ministry of Health is responsible for the labelling and advertising of liquor products based on the [regulations relating to labelling and advertising](#).

## **Regulations Relating to Health Messages on Container Labels of Alcohol Beverages**

In December 2017, the Minister of Health published the final regulations relating to health messages on container labels of alcohol beverages to be implemented in 2020, which is 36 months after the date of publishing. This regulation was widely criticized by the domestic industry and international stakeholders including the United States industry. The key concerns raised about the regulation includes, lack of clarity on the definition of container; difficulties to comply with this regulation and increased costs for manufactures especially small organizations; no clarity on how the Ministry of Health will enforce compliance of the regulation; the questionable effectiveness of rotating health labels to reduce alcohol abuse. More information on this regulation can be obtained from the following Post GAIN report, [Download Report](#).

## **Proposed Liquor Policy Bill**

On May 20, 2015, the Department of Trade and Industry published a government notice (No. 38808) inviting the public to comment on the National Liquor Policy. The notice can be downloaded on the following link: [http://www.gov.za/sites/www.gov.za/files/38808\\_gen446.pdf](http://www.gov.za/sites/www.gov.za/files/38808_gen446.pdf). This Bill has not been finalized. The key proposals include raising the minimum legal drinking age from 18 to 21 year old; restrictions on the advertising of alcoholic beverages and prohibitions on sponsorship and promotions associated with alcoholic beverages; extended liability for liquor manufacturers and distributors. While the intentions of the liquor policy are well meaning given the challenges and problems associated with

alcohol and alcohol abuse in South Africa, the proposed policy requires further clarification, simplification and some of the policy proposals are impossible to implement or enforce compliance. If the policy is implemented in its current form, it is expected to have economic implications to the liquor industry and could affect United States exports. More information on this bill can be obtained from the following Post GAIN report, [Download Report](#).